

Message Text

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PAGE 01 EC BRU 06770 01 OF 02 211933Z

73

ACTION EUR-25

INFO OCT-01 IO-14 ISO-00 AID-20 CEA-02 CIAE-00 COME-00

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TO SECSTATE WASHDC 6051

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS UNN

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

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AMEMBASSY THE HAGUE

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LIMITED OFFICIAL USE SECTION 1 OF 2 EC BRUSSELS 6770

PASS TREASURY, FRB AND CEA

E.O. 11652: NA

TAGS: EFIN, EEC

SUBJ: EC COMMISSION VIEWS ON GOLD IN INTRA-EC
SETTLEMENTS

1. SUMMARY. EC COMMISSION OFFICIALS HAVE TOLD US
THE COMMISSION DOES NOT INTEND TO MAKE ANY PROPOSALS
TO THE EC COUNCIL CONCERNING THE PRICE OF GOLD IN
TRANSACTIONS BETWEEN EC CENTRAL BANKS, AND THAT IT
DOES NOT BELIEVE THE TIME IS RIPE TO MAKE ANY
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PAGE 02 EC BRU 06770 01 OF 02 211933Z

JUDGMENT ON THE CRITERIA FOR AN EVENTUAL INCREASE IN

THE PRICE OF MONETARY GOLD. AT THE SAME TIME, THE COMMISSION ADMITS THAT GOLD IS BEING DISCUSSED IN THE MONETARY AND CENTRAL BANK GOVERNORS COMMITTEES. WELL-PLACED COMMISSION SOURCES HAVE TOLD US, MOREOVER, THAT THERE IS STRONG THOUGH MINORITY SUPPORT WITHIN THE COMMISSION FOR THE INCLUSION OF GOLD IN INTRA-EC SETTLEMENTS AT A HIGHER PRICE. THIS WOULD CONSTITUTE A POLITICAL GESTURE WHICH, AS EC COMMISSION VICE PRESIDENT HAFERKAMP TOLD A PRESS CONFERENCE ON NOVEMBER 16, WOULD ENABLE THE COMMUNITY TO ASSERT ITS OWN PERSONALITY. END SUMMARY.

2. THE EC COMMISSION'S DISINCLINATION TO TAKE ANY INITIATIVE ON THE GOLD PRICE ISSUE ACTUALLY APPEARED IN WRITING ON NOVEMBER 14 IN RESPONSE TO A EUROPEAN PARLIAMENTARIAN'S QUESTION AS TO WHETHER OR NOT THE COMMISSION WAS COMPETENT TO PROPOSE A NEW AND MORE REALISTIC PRICE OF GOLD FOR INTRA-EC TRANSACTIONS. IN REPLY, THE COMMISSION STATEMENT NOTED THAT THE POWER OF DECISION IN FIXING THE PRICE OF GOLD WAS DETERMINED BY ARTICLE IV, SECTION 7, OF THE IMF ARTICLES OF AGREEMENT AS AMENDED ON JULY 29, 1969, THE AMENDED TEXT STIPULATING THAT THE FUND CAN, BY AN ABSOLUTE MAJORITY OF 85 PERCENT, CHANGE IN UNIFORM PROPORTION THE PARITY OF THE CURRENCIES OF THE MEMBER STATES. THE COMMISSION STATEMENT FURTHER NOTED THAT THE QUESTION OF GOLD WAS CURRENTLY BEING DISCUSSED BY THE C-20 ON WHICH SIX OF THE MEMBER STATES AND A COMMISSION OBSERVER WERE REPRESENTED.

3. EC COMMISSION OFFICIALS HAVE CONFIRMED TO US THAT, WHILE A HIGHER PRICE OF GOLD IS BEING DISCUSSED WITHIN THE COMMISSION AS A WORKING HYPOTHESIS, THERE IS NO INTENTION TO PRESS FOR A CHANGE IN PRICE IN RESPECT TO INTRA-COMMUNITY TRANSACTIONS. THESE OFFICIALS POINT OUT THAT THE COMMISSION'S PROPOSALS ON RESERVE POOLING DO NOT REQUIRE A HIGHER GOLD PRICE INASMUCH AS THEY PROVIDE THAT THE DISTRIBUTION OF ANY INCREMENTAL VALUE ACCRUING TO THE EUROPEAN MONETARY COOPERATION FUND AS THE RESULT OF AGREEMENT ON A NEW LIMITED OFFICIAL USE

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PAGE 03 EC BRU 06770 01 OF 02 211933Z

GOLD PRICE AT AN INTERNATIONAL LEVEL OR BETWEEN EC CENTRAL BANKS WILL BE MADE IN UNITS OF ACCOUNT IN PROPORTION TO EACH CENTRAL BANK'S GOLD CONTRIBUTIONS. THUS, GOLD COULD BE PAID TO THE FUND AT THE CURRENT OFFICIAL PRICE. THESE OFFICIALS FURTHER NOTE THAT IF INTRA-EC GOLD TRANSACTIONS DID TAKE PLACE AT A HIGHER PRICE, TECHNICAL PROBLEMS WOULD ARISE WITH RESPECT TO THE UNIT OF ACCOUNT (WHICH IS DEFINED IN GRAMS OF

GOLD), THE COMMON AGRICULTURE POLICY, AND MEMBER STATE CONTRIBUTIONS TO THE EC BUDGET, WHICH ARE STILL CALCULATED IN PRE-SMITHSONIAN PARITIES. THE COMMISSION HAS NOT YET TACKLED THESE TECHNICAL PROBLEMS.

4. SOME OF THE DISCUSSION WITHIN THE COMMISSION ON A HIGHER GOLD PRICE WITHIN THE EC TURNS ON THE TECHNICAL ARGUMENT OF WHETHER OR NOT THIS STEP WOULD FACILITATE THE USE OF GOLD IN INTRA-COMMUNITY TRANSACTIONS. SO FAR, GOLD HAS BEEN EFFECTIVELY NEUTRALIZED. AS A RESULT OF THE IMF'S DECISION ON NOVEMBER 4 TO SUSPEND FOR 120 DAYS THE EQUAL VALUE PRINCIPLE, COMMISSION OFFICIALS NOW SAY IT WILL BE POSSIBLE FOR MEMBER STATES TO TRANSFER AMONG THEMSELVES BOTH SDRS AND FUND POSITIONS. THIS MEANS THAT GOLD-RELATED ASSETS MAY NOW BE USED IN INTRA-EC SETTLEMENTS. WE UNDERSTAND, MOREOVER, THAT THE FRENCH INTEND TO PAY OFF A DEBT TO THE BUNDESBANK IN SUCH ASSETS. ALTHOUGH THIS NEW SITUATION WOULD SEEM TO REMOVE ONE ARGUMENT IN THE COMMUNITY FOR A HIGHER GOLD PRICE, THE POINT IS MADE THAT TRANSACTIONS IN GOLD AS SUCH (AS DISTINCT FROM GOLD-RELATED ASSETS) ARE STILL EFFECTIVELY BLOCKED AND THAT A MEMBER STATE MIGHT HAVE INSUFFICIENT GOLD-RELATED ASSETS TO COVER ITS DEBTS IN ACCORDANCE WITH THE COMPOSITION OF ITS RESERVES.

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PAGE 01 EC BRU 06770 02 OF 02 211923Z

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LIMITED OFFICIAL USE SECTION 2 OF 2 EC BRUSSELS 6770

5. WHILE IT THUS APPEARS REASONABLY CLEAR THE COMMISSION HAS NO INTENTION AT THIS TIME TO TAKE ANY INITIATIVE ON GOLD, AND THAT THE COMMISSION WILL ABIDE BY ARTICLE IV, SECTION 2 OF THE IMF ARTICLES OF AGREEMENT (PROHIBITING GOLD PURCHASES ABOVE PAR VALUE), SEVERAL RELIABLE EC CONTACTS TELL US THERE IS NONETHELESS VOCAL MINORITY SUPPORT WITHIN THE COMMISSION FOR AN INITIATIVE IN THE MATTER. THE BEST EVIDENCE OF THIS ATTITUDE IS IN EC COMMISSION VICE PRESIDENT HAFERKAMP'S STATEMENT TO THE PRESS IN BRUSSELS ON NOVEMBER 16 THAT, SINCE THE TWO-TIER MARKET HAS BEEN AT LEAST PARTIALLY ABANDONED, THE COMMUNITY COULD AGREE ON A HIGHER OFFICIAL GOLD PRICE FOR LIMITED OFFICIAL USE

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PAGE 02 EC BRU 06770 02 OF 02 211923Z

TRANSACTIONS BETWEEN THEIR CENTRAL BANKS. SUCH A DECISION, ACCORDING TO HAFERKAMP, WOULD BE A MEANS FOR THE COMMUNITY TO ASSERT ITS OWN PERSONALITY. WHILE IN HIS VIEW SUCH A STEP WAS NOT NECESSARY FOR THE COMMUNITY TO BEGIN POOLING RESERVES, INCLUDING GOLD, HE SAID THE QUESTION WOULD HAVE TO BE EXAMINED.

6. SUBSEQUENT TO HAFERKAMP'S PRESS CONFERENCE, COMMISSION OFFICIALS APPEARED TO BACK AWAY SOMEWHAT FROM HIS DECLARATION BY SAYING THAT HE SIMPLY WANTED TO BRUSH ASIDE ANY OBJECTIONS TO THE COMMISSION'S PROPOSALS ON RESERVE POOLING THAT WERE BASED ON THE NOTION THAT TERMINATION OF THE TWO-TIER GOLD MARKET HAD CREATED A NEW SITUATION. THUS, THE COMMISSION'S PROPOSAL ON POOLING AND THE FUNCTIONING OF THE EC MONETARY COOPERATION FUND WOULD REMAIN VALID WHATEVER THE PRICE OF GOLD.

7. COMMISSION OFFICIALS HAVE TOLD US THERE IS IN FACT A BODY OF OPINION WITHIN THE COMMISSION THAT SEES THE QUESTION OF A HIGHER GOLD PRICE FOR INTRA-EC TRANSACTIONS AS ESSENTIALLY A POLITICAL PROBLEM. NOW THAT CENTRAL BANKS ARE FREE TO SELL GOLD AT THE MARKET PRICE, THEY MAINTAIN THERE IS NO REASON NOT TO FACILITATE ITS USE

WITHIN THE COMMUNITY BY ESTABLISHING A MORE REALISTIC PRICE. BELIEVING THAT SUCH A STEP IS SIMPLY A MATTER OF COMMON SENSE, THEY FAIL TO SEE WHY THE COMMUNITY SHOULD REFRAIN FROM TAKING IT SIMPLY BECAUSE IT MIGHT DISPLEASE THE U.S. ON THE CONTRARY, THEY CONSIDER THAT IT WOULD BE AN EXCELLENT OPPORTUNITY FOR THE COMMUNITY TO ASSERT ITS OWN "MONETARY PERSONALITY." A FURTHER ARGUMENT THEY CITE IS THAT A HIGHER GOLD PRICE WOULD COUNTER THE POINT ADVANCED BY SOME MEMBER STATES THAT THERE CAN BE NO RESERVE POOLING PENDING RESOLUTION OF THE GOLD PRICE ISSUE IN INTRA-EC TRANSACTIONS, ALTHOUGH IT IS ADMITTED THAT THESE MEMBER STATES WOULD THEN PROBABLY ADVANCE SOME OTHER ARGUMENT AGAINST RESERVE POOLING.

8. THESE OFFICIALS FURTHER ARGUE THAT SUCH A MOVE NEED NOT COMPLICATE INTERNATIONAL MONETARY REFORM NEGOTIATIONS, WHICH IN ANY CASE ARE LIKELY LIMITED OFFICIAL USE

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PAGE 03 EC BRU 06770 02 OF 02 211923Z

EVENTUALLY TO LEAD TO A MORE REALISTIC PRICE FOR GOLD IN TRANSACTIONS BETWEEN CENTRAL BANKS. THEY NOTE THAT EVEN THE U.S. AGREES THAT GOLD WILL CONTINUE TO PLAY A ROLE IN A NEW INTERNATIONAL MONETARY SYSTEM. THE OFFICIALS HOLDING THESE VIEWS, HOWEVER, GRANT THAT THEY ARE UNLIKELY TO PREVAIL BECAUSE THE COMMUNITY WILL NOT HAVE THE COURAGE TO ACT.

9. IN SUM, THERE ARE AT THIS TIME TWO DISTINCT VIEWS IN THE COMMISSION. A MINORITY VIEW HOLDS THAT NOW IS THE TIME FOR THE COMMUNITY TO ASSERT ITSELF BY DECLARING A NEW AND HIGHER GOLD PRICE IN INTRA-COMMUNITY TRANSACTIONS. ON THE OTHER HAND, A MAJORITY OF COMMISSION OFFICIALS STILL APPEAR TO BELIEVE THAT THE ISSUE IS BEST RESOLVED THROUGH THE C-20 TALKS ON INTERNATIONAL MONETARY REFORM. MANY OF THESE OFFICIALS, HOWEVER, SAY THAT IT IS PROBABLY REALISTIC TO EXPECT THAT CENTRAL BANK GOLD TRANSACTIONS WILL EVENTUALLY HAVE TO TAKE PLACE AT A HIGHER PRICE. GREENWALD

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